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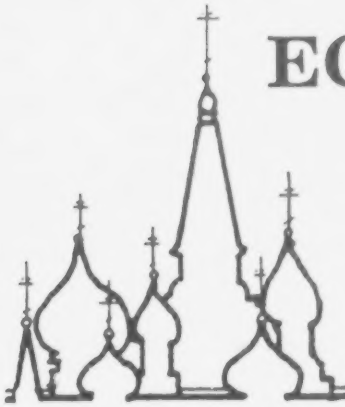

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XIII, No. 9
May 5, 1989

ECONOMIC RESULTS FOR THE FIRST QUARTER OF 1989

Product	1st Quarter 1989	1989 as a % of 1988
Electricity (billion kw hrs)	469	100.2%
Petroleum (million tons)	152	97.
Natural Gas (billion meters^3)	204	103
Coal (million tons)	199	98.
Steel (million tons)	40.9	99.5
Fertilizer (million tons)	9.2	99.
Metal-cutting tools (thousand units)	6.0	113
Robots	*	*
Computer tech. (billion rubles)	1.8	122
Tractors (million hp)	*	*
Paper (million tons)	1.6	99.1
Cement (million tons)	34.9	101
Meat (million tons)	2.8	99.0
Margarine (thousand tons)	403	93.
Watches (million units)	14.6	106
Radios (million units)	1.8	100
TV sets (million units)	2.1	98
Automobiles (thousand units)	198	98

* not published

LIVESTOCK HERDS
(Million tons)

Herd	As of 4/1/88	As of 4/1/89	1989 as a % of 1988
Cattle	96.6	95.1	98.4%
Cows	28.7	28.4	98.9
Hogs	58.0	58.4	100.
Sheep Goats	135.5	132.8	98.0

FOOD SALES
(Million tons)

Product	1st Qarter 1989		1989 as a % of 1988
Bread products	9.1		98%
Dairy products	8.2		104
Cheese	0.2		99
Vegetable oil	0.3		101
Margarine products	0.3		92
Meat and meat prod.	2.9		103
Fish and fish prod.	1.1		96
Eggs (billion units)	12.1		98
Sugar	1.7		90
Confectionery prod.	1.3		106
Tea	0.1		104
Potatoes	1.6		86
Vegetables	1.7		102
Fruit & Citrus	0.68		103
Non-alcoholic bevs.	94.5	(mil. decaliters)	108
Mineral water	94.5	(mil. decaliters)	106
Vodka & Liquor	40.4	(mil. decaliters)	139
Wine	48.5	(mil. decaliters)	128
Cognac	3.2	(mil. decaliters)	138

Economic Results for the First Quarter of 1989

In times past, whenever the Soviet economy faltered, Soviet statistical authorities halted the publication of monthly economic data. As readers of this newsletter know, we have not had monthly data since August 1988. The published statistical results released for the first quarter of 1989 suggest that there is good reason to hold back some of the monthly data; the quarterly results are not favorable. It is true that according to the statistics, the Soviet index of what is called gross national product rose by 5%. However, that masks a multitude of problems. For example, production of food products rose 2.7% while the plan called for an increase of 12.7%. Similarly, the work force shrunk by 0.4% whereas it was supposed to increase 2.2%. And most disturbing of all, productivity rose 4.5%, but the wage fund rose 9% (against a planned increase of only 3%), and the average monthly wage rose 9.4% when it was only supposed to rise 0.9%. On the farms, the average monthly wage of the peasants rose 5% where it was only supposed to increase 1%. This helps to explain why there is such concern in the Soviet Union about inflation.

The statistics also indicate why there has been so much discussion about the difficulty in obtaining food products. Production of meat was down 1% although sausage production was up 2%. But most striking of all was the fact that bread sales were down 2%, cheese 1%, fish 4%, eggs 2%, sugar 10% and potatoes 14%. Vodka sales, after the new liberalized measures were introduced, rose 39%. Wine sales rose 28%, champagne 12%, cognac 38%, and beer 12%. That certainly should make the man in the street happier, although not necessarily his wife. Moreover, it does reflect a considerable retreat from what Gorbachev had tried to do earlier. Also, there was an increase in sales of some milk products and some meat by 3%.

From the consumer's point of view, it was also disappointing to learn that housing construction diminished by 0.5 million square meters. At least a few years ago, housing construction was increasing.

It now looks like Gorbachev is beginning to have some problems with the main sectors of industry as well. Oil production, for example, was down 3% in the first quarter of 1989. That is the first time there's been such a substantial drop in many years. Similarly, electrical production was just about the same and gas production rose only 3%. Coal production, however, dropped 2% and steel production was below what it was the preceding quarter by a fraction.

As far as agriculture is concerned, the statistical report acknowledges that there was a shortage of feed grains in the first quarter, and that has had a negative impact on the size of the herd. As a look at the table indicates, while the number of pigs has increased, the number of cows, chickens, and goats has dropped between 1 and 2%.

Reflecting the serious problem in agriculture, the Soviets have reported that in the first quarter of 1989 they increased their imports of coffee and grain by nine tons more than last year, butter by 74,000 tons, tea by 6,000 tons, meat and meat products by 17,000 tons. Additional consumer goods were also purchased. However, this comes against the backdrop of a curtailment in imports last year.

There were some positive signs. The sale of consumer appliances did seem to increase significantly. Color television set sales were up by 4%, refrigerator sales were up by 10% and washing machines by 6%. However, the production of automobiles dropped by 8% and retail sales fell by 2%.

Finally, a word should be said about the changed format of the statistical report. In the past the first items recorded were always heavy industrial products, but now they come at the very end of the report. That is intended to reflect the change in emphasis. In addition, there is also a special section which provides crime statistics, as well as a report on the environment. This is all designed to put more emphasis on things that are of immediate importance to the consumer. In the meantime, however, the reports, whatever they are, on the whole tend to be quite gloomy and further indication that perestroika is in trouble.

Opinions and ideas expressed in this newsletter are those of the author and not the RRC or Harvard University unless otherwise indicated.

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FOREIGN EXCHANGE RATES
March 15, 1989 to April 12, 1989

Quoted in rubles

	March 15	March 22	March 29	April 5	April 12
£100 Sterling	107.02	107.15	107.57	105.78	106.49
100 Aust. Sch.	4.75	4.75	4.74	4.73	4.75
100 D. Marks	33.44	33.38	33.40	33.36	33.45
100 D. Guilders	29.60	29.57	29.59	29.54	29.64
100 U.S. Dollars	62.24	62.53	62.56	62.91	62.77
100 Fr. Francs	9.85	9.86	9.86	9.88	9.90
1,000 Jap. ¥	4.80	4.74	4.74	4.76	4.73
10,000 It. Lire	4.55	4.55	4.54	4.55	4.56
100 Swiss Frs.	39.14	38.79	38.44	38.03	38.02
100 Nor. Kroner	9.18	9.19	9.19	9.17	9.20
1,000 Bel. Frs.	15.95	15.94	15.94	15.91	15.97
100 Sw. Kronor	9.77	9.79	9.80	9.79	9.82

THE CHICAGO TRIBUNE, Tuesday, May 2, 1989 Section 1, page 15

Gorbachev outmuscles his foes

By Marshall I. Goldman

Once again, Mikhail S. Gorbachev has taken by surprise not only outsiders but those inside the Soviet Union as well. His purge of the "dead souls" in the Central Committee of the Communist Party, second in importance only to the Politburo, was a brilliant political move. Theoretically, committee members can be replaced only at a party congress, which meets every five years, the next being in 1991. But Gorbachev did not want to wait that long to rid himself of some of his opponents.

Instead, he pressured 74 of the more conservative voting members, or one-quarter of the Central Committee membership, to submit their resignations "voluntarily." According to their jointly signed statement, they felt they should resign because of "their age or the state of their health." That would be like George Bush accepting the voluntary resignation of one-quarter of the House of Representatives, all of whom by coincidence happen to be Democratic. Who would believe they would resign voluntarily?

Many of these "dead souls" should have resigned long ago. They had been appointed to the Central Committee because their selection as regional party secretaries or other senior governmental or party positions entitled them to this honor. But as part of the process of reform, Gorbachev has replaced a large number of these officials and on occasion even abolished the offices they held. Thus just as the dead serfs in Gogol's novel "Dead Souls," these modern-day bureaucrats no longer represented what they originally were to represent; they had lost legitimacy.

But this political victory for Gorbachev has come at a cost; it has called into question Gorbachev's campaign for *glasnost* and democratization. Is Gorbachev being honest and following official procedures? No one believes these resignations were voluntary or for the stated reasons of age and health. After all, many of those who resigned were in their 50s and 60s, and 12 who were removed did not resign. It was explained that the members of this latter group "are seriously ill" and could not attend the meeting to sign the voluntary statement about their health.

Equally surprising, none of those who had lost the March 26 election for membership in the new Congress of People's Deputies were removed from the Central Committee. The initial expectation was that they would be the major targets of any purge. But Gorbachev is good at putting his own spin on events for his own purposes. He used the March election results and the protest over the course of *perestroika* that the election reflected as an excuse to purge those he viewed as his opponents.

But why did Gorbachev not remove those who lost the March election as well as those who survived the election but continued to be his most dangerous critics? In particular, why did this purge not affect the leaders of the Leningrad, Moscow, Kiev and Minsk party organizations who lost the election, as well as Igor Ligachev, Viktor Chebrikov and Vladimir Shcherbitsky, three of Gorbachev's severest critics on the Politburo? They might be purged next, but the best answer is that Gorbachev may not yet be strong enough to challenge these party stalwarts. Another explanation is that before he decided to launch such a battle, Gorbachev felt he had to improve the voting odds in the Ceentral Committee, which he did by ridding himself of those "dead souls."

It also may be that the whole election process has complicated Gorbachev's political struggle. Since Ligachev, Chebrikov and Shcherbitsky all won election to the Congress of People's Deputies, it would be awkward if Gorbachev then removed them. Admittedly, none of them had to run against an opponent; but neither did Gorbachev.

While Gorbachev's political victory may not have been as complete as he might have wanted, the odds are that this purge allows him more time to deal with what he himself admitted was a deteriorating economy. There were harsh words at the Central Committee meeting about how *perestroika* has failed. Indeed, many of the party officials who were defeated in the March elections, especially those from Leningard, blamed the failure of *perestroika*.

That, of course, is a not so subtle way of attacking Gorbachev himself. But what can Gorbachev do? As he noted, the workers are not working and the bureaucrats are not supporting his reform. In the meantime, the national budget deficit is increasing and wages are rising twice as fast as productivity, which results in inflation and more shortages of goods. Nor will the resignations help Gorbachev cope with the increasing unrest in the minority republics.

It may be that Gorbachev's victory last week, as incomplete as it was, nonetheless will serve an important purpose. Admittedly, his purge may not have done much to inspire confidence in *glasnost*. Yet the renewed display of Gorbachev's strength should convince others, both the bureaucrats and the Soviet people, that they had better give more than lip service to what he is trying to do. Ultimately, that is what Gorbachev needs. Political victories and letters of resignation help, but it is making available more food and consumer goods, and the production of those items within the Soviet system, that ultimately will decide Gorbachev's fate.

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The Economic Challenge of Perestroika
by Abel Aganbegyan
Indiana University Press, 1988
275 pages, $18.95

reviewed by Robert W. Campbell

This book expresses the attitudes, understanding, and hopes of Soviet economic reformers at an early point in the unfolding saga of perestroika. The author, Abel Aganbegyan, who is described as chief economic adviser to Mikhail Gorbachev, is an influential exponent of reform and an architect of the reform concept. As director of an economic research institute in Novosibirsk and editor of the most interesting economic periodical in the Soviet Union, he was an early critic of the system and a proponent of reform. When Gorbachev came to power, Aganbegyan became an important member of the reform brain trust.

Aganbegyan presents a strong critique of the Soviet economy—it is far worse than the official picture, he says—and an analysis of how the economy got into this alarming state. Although Aganbegyan's use of exotic terminology and unfamiliar measures seem a little awkward, his analysis of the cause of the slowdown is much like that of Western specialists. Soviet growth strategy, and the economic system that directed it, relied on growing inputs of labor, capital, and natural resources, with relatively little technical progress or productivity growth. That strategy can no longer be sustained because of demographics, depletion, and other adverse effects limiting input growth.

The book contains a fairly clear exposition of the first steps intended to create the basis for improved performance. At the heart of the strategy is increased investment to renovate capital stock and alter the structure of output. Capital stock currently embodies old technology that is wasteful of inputs, so that the final output obtained from massive resource inputs is much smaller than it ought to be. Aganbegyan has a wonderful faith in technical progress as the solution to this problem. One long chapter explains how the institutional structure is to be remodeled to provide better incentives and control, working through a mixture of elements of plan and market. The author sees clearly that reform of the economy implies a broader program of restructuring society as a whole.

There is also unhelpful ballast. A chapter on the relationship of perestroika to the arms race is thoroughly unsatisfactory. This chapter is written by someone other than the author, since he pleads ignorance of these matters. That seems a damaging admission for a chief economic adviser, when allocation of 15 percent or more of the Soviet gross national product to military purposes is one of the major reasons for faltering performance. Two appendices on the use of mathematical models in planning serve the author's vanity more than the reader's edification. As tools of central planning they have little relevance to a reformed system.

Perhaps the most important thing to understand about the book is that it reflects the early thinking of the reformers. It conveys very well how incomplete their vision of the new system was or how the reform process might move toward its goals. The author says that the system will have been transformed by the year 2000, but there is little sense of the intervening steps in the process of change. The vision of the reformed system is one in which there is still a great deal of planning. The system will be more market-like, but it will still be socialist, serving socialist goals defined for the society from the top. If we go by the record of economic reform in the socialist world as a whole, that seems naive. The only way to release lower-level initiative, make producers responsive to consumers, and overcome the traditional sluggishness in innovation is to abolish central administration and the bureaucracy that operates it. Aganbegyan seems to underestimate how far reform may need to go to abolish the baneful influence of direction from the top.

In this respect, Aganbegyan reflects the state of understanding at the beginning of the Gorbachev period. Events have now moved on, and after three years of reform the complexity of the challenge and the inefficacy of half-hearted measures have become obvious. Halfway through the Twelfth Five-Year Plan the economy is disrupted by piecemeal reform and continued interference by the bureaucracy. Perestroika has yet to provide visible payoffs in terms of growth or improved efficiency. In particular, it has done little for the consumer. And there is little evidence that the renovation of capital stock designed to increase productivity is in fact taking place. Uncertainty and continued bureaucratic interference have inhibited new forms of behavior by lower-level managers. The reformers have temporized on measures to assure macroeconomic balance. They are far behind the timetable for getting a properly functioning new system in place for the next five-year plan in 1991.

In the process, the analysis of what needs to be done has grown in sophistication. Positions have become more polarized, but among the economists on the reform side there is increasing sophistication about reform and a willingness to radicalize the program. At the party conference last summer, Leonid Abalkin, perhaps a more interesting economist than Aganbegyan, said that what has been done so far is too little and too timid. It is not clear that the full impact of that message has been accepted by the political leadership, although the political shakeup in September 1988 may have set the stage.

For anyone accustomed to old style Soviet economic discourse, this book will be a revelation, an interesting and substantive treatment of a kind not seen since the 1920s. Although it does more to define the challenge of perestroika than to suggest how to meet it, it still provides an excellent background for following the unfolding struggle. □

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